FISCAL NOTE

L.R. No.: 2122-01
Bill No.: HB 680
Subject: Economic Development; Revenue Department; Taxation and Revenue.
Type: Original
Date: April 4, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	$0	$0 or (Unknown - Greater than $1,000,000)	$0 or (Unknown - Greater than $1,000,000)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**$0 or (UNKNOWN - GREATER THAN $1,000,000)**	**$0 or (UNKNOWN - GREATER THAN $1,000,000)**

*** The (Unknown - Greater than $1,000,000) fiscal impact assumes the taxpayer in Hazelwood accepts and meets all of the criteria outlined in the proposal.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume that the provisions in this legislation will be administered by the Department of Economic Development. DOR does not anticipate there will be significant number of new credits claimed and will therefore not request additional FTE.

Officials from the **Office of Administration - Budget and Planning (BAP)** state that various provisions in this bill could have a negative impact on Total State Revenues.

Officials from the **Department of Economic Development (DED)** state this proposal amends the "BUILD" (Business Use Incentives for Large Scale Development) Program to authorize its use for retention projects so long as the project is to retain an "essential industry." Essential industry is one that is critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for the life of the BUILD certificates (10-15 years). The nearly exhausted cumulative bond cap will be replaced with an annual tax credit cap of $11 million.

ASSUMPTION (continued)

DED states the proposal also adds new sections to Enterprise Zone law to allow tax credits, tax exemption and refunds to "essential industries" upon an agreement with the DED. Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, will make at least a $500 million new investment at the project, is located in an enterprise zone that includes a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for 10 years. Jobs must pay better than average wage of county.

DED states that local incentives must be provided and the company must be considering another state for the project. Tax credit otherwise for new jobs under EZ is for retained jobs. Credits for investment are only for new investment. Refund mechanism allows a $2 million per year refund for 5 consecutive years.

DED states the proposal also amends the Community College New Jobs Training Program to authorize its use for retention projects so long as the project is to retain an "essential industry". Again, essential industry is one critical to the state and a targeted industry, with at least 2,000 jobs, is located in a geographic area that currently is Hazelwood, and will retain 2,000+ jobs at the project for the life of the CCNJT certificates (8 years). Jobs must pay better than average wage of county.

The provisions of the bill will expire unless a project has been approved by DED by December 31, 2005. If a project is so approved, provisions will expire January 1, 2020 - gives a full 15 years for a BUILD bond issuance.

It is estimated by DED that agreements entered into with the taxpayer under the provisions of this bill would result in $3 to $3.5 million per year in incentives each year over a period of ten years, beginning no sooner than FY2005.

DED states that it is notable that the taxpayer has already announced its intention to close the Hazelwood facility in 2005 and the loss of the jobs at the plant would result in a very large negative impact on the state. Without an incentive agreement to keep the Hazelwood plant open, Total State Revenues (TSR) would decline due to the loss of jobs, supported jobs, etc. DED has not factored this into their estimated costs.

DED assumes no new staff will be needed as a result of the bill. DED assumes tax incentives will first affect TSR during FY2005, although it could begin in a later fiscal year. DED assumes the amount will be $3 million in FY05 and $3.5 million per year thereafter for the remainder of approximately 10 years. ASSUMPTION (continued)

DED assumes this will be offset by some positive but indeterminable economic benefits to the state, which are not projected in this fiscal note.

Officials from the **City of Hazelwood** and **St. Louis County** did not respond to our request for fiscal impact.

According to Subsection 135.291.5, the taxpayer in Hazelwood must choose between the tax benefits they are already receiving under Sections 135.220, 135.225, 135.235, 135.245 or 135.110 and the benefits described in the new sections of the proposal (135.290 through 135.293). **Oversight** does not know what benefits the taxpayer is already receiving under current law, so determining how much more of an impact the enterprise zone benefits in this proposal will have is not possible.

Oversight was unable to determine, from the information provided, how DED arrived at their estimated cost of $3.5 million per year. Therefore, based upon the lack of information available and the upon the significance of the three programs that were adjusted to include the taxpayer in Hazelwood, Oversight assumes the fiscal impact to the state would be unknown loss of state revenue in excess of $1 million per year for fifteen years. This loss is dependent upon the taxpayer accepting the terms of the legislation, which include retaining employment for 2,000 employees for at least five years, the average wage of the employees exceeding the average wage paid within St. Louis County, and the taxpayer investing a minimum of $500 million in the economic development project by the end of the third year.

Oversight will range the fiscal impact of the proposal from $0 (if the taxpayer does not accept the terms of the proposal and since the taxpayer has until January 1, 2006 to act upon the proposal) to (Unknown - Greater than $1 million). Oversight has not shown the potential positive fiscal impact that may result from these economic development incentives. Oversight assumes the fiscal impact would not be realized before FY 2005. Oversight also assumes the City of Hazelwood and St. Louis County may also include incentives for this taxpayer but has not reflected them on the fiscal note.

This proposal may impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
Loss - various tax credit programs restructured for a taxpayer in Hazelwood	$0	$0 or (Unknown Greater than $1,000,000)	$0 or (Unknown Greater than $1,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0**	**$0 or (Unknown Greater than $1,000,000)**	**$0 or (Unknown Greater than $1,000,000)**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Relating to a motor vehicle manufacturing facility in the City of Hazelwood, this proposal:

(1) States that 50% of the Missouri taxable income attributed to an approved retained business facility in Hazelwood is exempt from taxation;

(2) Allows the following tax credits for the facility for 10 years:

(a) A $400 or $500 tax credit for each employee retained by the facility;

DESCRIPTION (continued)

(b) An additional $400 tax credit for each year in which a retained employee lives in Hazelwood. This tax credit can be prorated for employees who have not lived in Hazelwood for a full year;

(c) An additional annual $400 tax credit for each retained employee that fits the criteria for "a person difficult to employ." This tax credit can be prorated for employees who have not worked for the facility for a full year;

(d) An additional tax credit equal to 80% of the training expenses that are in excess of $400 per trainee, as long as the trainee is a resident of Hazelwood or is defined as "a person difficult to employ." This tax credit cannot exceed $400 per trainee; and

(e) An additional tax credit equal to 10% of the first $10,000 of a qualifying investment, a 5% tax credit on the next $90,000 of a qualifying investment, and a 2% tax credit on all remaining qualifying investments;

(3) Allows a tax refund to be issued to the facility in Hazelwood, but only if the certified tax credits exceed the company's total Missouri tax liability by at least $1 million. In this case, a portion of the tax credits earned will be considered an overpayment of taxes and may be refunded to the company. The maximum amount of the refund cannot exceed $2 million a year;

(4) Prohibits the facility from taking advantage of the tax exemption for new businesses in enterprise zones, tax credits for a new or expanded business facility in an enterprise zone, tax credits for training employees, tax credits for new or expanded business facilities, or the income tax refund for establishing a new business facility in an enterprise zone if it uses the tax exemption, tax credits, or tax refund explained in the proposal;

(5) Allows the facility to participate in the New Jobs Training Program; and

(6) Requires any contract entered into between the facility and the Department of Economic Development to include a requirement that the company maintain operations at the facility for at least
10 years at a particular employment level. The contract must also include provisions for repayment of incentives upon breach of contract.

DESCRIPTION (continued)

Relating to tax credits for business-use incentives for large-scale development (BUILD), the proposal:
(1) Limits the amount of these tax credits to $11 million annually;

(2) Removes the $75 million limit on revenue bonds the Missouri Development Finance Board can sell;
(3) Defines "essential industry" as a targeted industry located in Hazelwood. The industry must meet certain criteria including having maintained at least 2,000 jobs in the four years prior to applying for tax credits, retained a certain level of employment, and invested a minimum of $500 million by the end of the third year following the issuance of these tax credit certificates; and

(4) Allows existing jobs in an essential industry to be considered new jobs.

The proposal will terminate January 1, 2006 if a project has not been approved by DED by December 31, 2005. If a project has been so approved, proposal will terminate on January 1, 2020.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning

NOT RESPONDING: City of Hazelwood, St. Louis County

Mickey Wilson

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APRIL 4, 2003